

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6793

BILL NUMBER: SB 250

NOTE PREPARED: Dec 29, 2003

BILL AMENDED:

SUBJECT: Distribution of Local Option Income Taxes.

FIRST AUTHOR: Sen. Lawson C

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill specifies that the county in which an individual pays local option income taxes is the county in which the individual resides (if the county has a tax) or works (if the county where the individual resides does not have a tax) for the majority of the taxable year. The bill provides that changes in withholding that results from changes in residence during a taxable year shall be made in accordance with the requirements prescribed by the Department of State Revenue.

Effective Date: Upon passage; January 1, 2004 (retroactive).

Explanation of State Expenditures: The bill would require the Department of State Revenue to revise state form 154 (IT-40). The current form's instructions require taxpayers to place the county code number on the form of the county the taxpayer lived and worked in on January 1, 2003. Under the bill, the form would be required to indicate the county the taxpayer resided in and worked in for the majority of the year.

The impact to state expenditures to adjust tax forms should be absorbable within the Department's existing resources. In FY 2003 the Department reverted \$2.8 M to the state General Fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* The changes proposed by the bill could change a county's local option income tax (LOIT) distribution. The impact to local revenue is unknown and would depend on the timing of taxpayers changing jobs or residency to another Indiana county within a taxable year. Under the

bill, an employer would be required to adjust the withholding amount of an employee if the employee were to notify their employer of a change in county residence.

Background: Under current law, residency for the imposition of LOIT is determined by the county in which a taxpayer:

- (1) maintains a home if the taxpayer maintains only one in Indiana;
- (2) if the taxpayer does not maintain a home, the county in which the taxpayer is registered to vote;
- (3) if (1) and (2) do not apply, then the county in which the taxpayer's vehicle is registered;
- (4) if (1), (2), and (3) do not apply, then the county where the taxpayer spends the majority of their time.

Under current law, residence and principal place of business/employment is determined on January 1 of the calendar year in which the taxpayer's taxable year begins. A change in residence or employment to another Indiana county does not affect the taxpayer's liability for LOIT owed to the county of residence or employment on January 1.

The CY 2004 certified distributions for all three LOITs are:

Tax	CY 2004 Certified Distribution
County Adjusted Gross Income	\$347.4 M
County Option Income	\$420.2 M
Economic Development Income	\$172.7 M

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: State Budget Agency.

Fiscal Analyst: Chris Baker, 317-232-9851.